

Which capitalism?

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Karl Marx predicted that capitalism would produce a growing gap in wealth and income between a top of mega-capitalists and a bottom of workers in increasingly miserable positions. Recognisable, in present labour in Western capitalist countries? Should a new Marx stand up? Is a new revolution in the offing?

Brewing discontent

There is growing protest. People have had enough of the banking scandals, avoidance of regulations on car emissions, excessive salaries and bonuses of top managers, loss of employment, increasing job uncertainty, more temporary jobs at worsened conditions, tax avoidance by multinational firms, lack of commitment to environmental protection, and an ostensive inability of 'politics' to take effective action.

This has led, among other things, to the protests of the 'Occupy' movement. That movement has petered out because it did not want to transform itself into a regular political party. Now there are new parties that do take that step: Syriza in Greece and Podemos in Spain. In the US Bernie Sanders is making an amazing rise and in the UK Jeremy Corbyn. Will they succeed? There is a dilemma. Outside the political system one obtains no power for change, but inside it one gets entangled in the status quo. Also rightist populism is flourishing from the discontent, but then in combination with discontent concerning incoming refugees. We see that with Wilders in the Netherlands, LePen in France, and Trump in the US.

It seems we are living in pre-revolutionary times. A revolution is not to be desired. A return of communism certainly isn't either. Another form of capitalism, perhaps? What, then, and how?

Not communism again

Communism is not a solution: that has failed. Why, exactly? Not because central planning is always impossible. It is not, however, capable of connecting with the diversity and change of individual desires, capabilities, creativity, ideas, and initiatives. Those are not given scope, are smothered in uniformity and rigidity. The result is demotivating and inhuman. Central planning is especially weak in innovation. That requires a multiplicity of diverse initiatives and trials, most of which fail. Central planning cannot deal with that. Friedrich von Hayek, godfather of neo-liberalism, offered this argument, and he was right: we need the market for the sake and because of diversity and changeability.

Is capitalism the only way, then? Has that issue been settled? Does history end in this, as Francis Fukuyama claimed? Capitalism is market plus private ownership of the means of production. That leaves room for different types of capitalism, and that is what I want to talk about here. Hayek suggested that the market works well and regulation is undesirable. But often the market does not work well, or has adverse effects when it does work. More about that later.

Forms of capitalism

In the past, in early capitalism, there was a large diversity of small and medium sized firms (below 100 people employed, say), which competed among each other and were too small to bend markets and government to their purpose. Now we are dealing with a strong concentration of knowledge, capital, and political power in large or mega corporations that experience only limited competition, or avoid each other in it, do their best to divide markets, make markets opaque with complex or difficult to judge products and prices, create costs of switching to a different producer, obstruct entry of new firms, avoid governmental regulation in globalisation, and suffer from tunnel vision and delusions of greatness.

I do not want to romanticise small firms. There also things go wrong, in dodging regulations, bad treatment of workers, pollution, and reckless conduct. There also there is macho conduct, narcissism, and misuse of power. But the consequences for society and politics are less. There, at least, there is no concentration of power that overpowers politics, as happens now, in mega-capitalism.

In Western democracies, capitalism is rooted in a (neo)liberal ideology, based on a utility ethics, rooted in Enlightenment ideals of a rational, autonomous individual, in a secular state with a separation of (legislative, judiciary and executive) powers (first developed in ancient Greece).

Another form of capitalism that is emerging, most patently in China, is accompanied with an undemocratic, authoritarian and elite-controlled regime, with controlled markets. In China it is rooted in a New Confucianism, consisting in a sometimes uneasy synthesis of Confucianism and elements from Buddhism and Taoism, with some Western influences, in different variants. However, a deep commonality of Confucianism, Buddhism and Taoism that contrasts with Western European thought is a sense of underlying unity, of the spiritual and the material, of substance and change, of thought and action, of knowledge and morality, of self and other. In Western thought it seems closest to American pragmatist philosophy (e.g. of Dewey, who had contacts in China).

Here I focus on Western forms of capitalism.

Perversities of mega-capitalism

A large corporation can afford to spend much money on lobbying, to foreclose or mitigate constraining regulation, or to obtain subsidies or tax advantages. In globalisation, it can threaten to shift employment to countries with lower wages. The banks were too large, relative to countries, to default and cause financial collapse.

Globalisation of business led to the import of American turbo-capitalism. Formerly, next to the interests of shareholders, interests of employees, customers, localities, and society also counted. Now it is only about profit in the short term (the next quarter). If management does not exploit the potential for it, it is replaced, or the firm is taken over by some 'private equity' firm that is not subject to the limitations that apply to companies quoted on the stock exchange, is then broken up and some fragments are taken back to the stock exchange. Globalisation of management leads to excessive remuneration for top managers, connected to achievements only in profit.

Formerly, corporations contributed much to the development of science and technology with basic research. Now, the prevailing short term orientation discourages such research, since that is for the long term. It is now largely left to universities. Then business can pick the cherries of success. And corporations now exercise more grip on university research, with conditions of confidentiality (e.g. in medical, chemical, and pharmaceutical research), to limit competition, by which the public function of research is affected.

Shifts of production to low wage countries is justified with the argument of lower costs, to the advantage of consumers. But that does not take into account the economic and social costs of unemployment in the home country, nor the social costs of bad employment conditions in the host countries. Nor the larger pollution from transport of products over larger distances.

Large, established firms have limited interest in ‘creative destruction’, the replacement of old products by new ones, especially if those do not fit in existing technology and organisation. They erect barriers to entry of new firms that do engage in more radical innovation, or take them over if that does not succeed, and then freeze the innovation. National innovation policies are manipulated to protect large corporations against ‘creative destruction’. Large firms influence the crafting and distribution of subsidies. As announced in the press, the IMF calculated that world-wide expense on subsidies and tax breaks for the fossil fuel industry exceeds world-wide expense on health.

What now? Should we go back to a system of smaller scale, less concentrated business? How? To find out we should consider the causes of the current situation.

Where has it come from?

The ‘Occupy’ movement had seen it well that the source lies in globalisation. That arises not only from differences in wages and labour conditions but also from economies of scale: production, distribution, advertising, trade, spreading of risks, and political influence are cheaper or more effective under a bundling of activities, a larger scale. That in itself is useful but in excess it leads to firms that are too large and powerful for any single country to control. A world government would be needed to control them. Think of the oil industry, pharmaceuticals and cosmetics, banking, insurance, ICT (Google, Apple, Amazon, Facebook, etc.) Scale effects have a limit. Beyond a certain scale the advantages dwindle, and disadvantages appear. There is greater unwieldiness, through a larger number of organisational layers, misdirection from a top that is estranged from the shop floor and gets lost in internal rivalry, introversion, withdrawal from reality, and delusions of grandeur. Yet increase of scale continues to go far beyond these limits.

Excess of mergers and acquisitions

Large scale mostly arises from mergers and acquisitions. They offer a faster way to grow than growth from within by developing new activities. They are defended also as needed to combine different activities that mutually reinforce each other, or yield the ‘novel combinations’ of innovation. That, however, can be done differently, and better, by collaboration between firms that remain independent and smaller. That offers more flexibility: one can more easily start and end collaboration between independent firms than build up and hive off activities within the firm. Staying apart yields fewer problems of integrating different cultures, which are often underestimated. It also allows for the maintenance of diversity, of

knowledge, experience, perspective, and culture. Scientists in this field of organisation have been proclaiming this for more than ten years now. Yet increase of scale and concentration by mergers and acquisitions continue unabated. Why? There is stack of perversion.

First, imitation: everyone does it, so it must be good, the thing to do.

Second: a flight forward: take over before you get taken over.

Third: power: a larger firm means more power, status and remuneration for the top.

Fourth: macho conduct: what one does is spectacular, reaches the news, and one gets known as a doer. The more gradual building up of collaboration between independent firms is slower and less spectacular.

Fifth: it is easier to play the boss than to acquire the art of collaboration between independent parties

In spite of all this, mergers and acquisitions gallop ahead. How is this possible? Members of supervisory boards are mostly top-managers as well, and allow each other the game they play themselves.

What democracy?

Democracy's inability to control mega-capitalism is indicated above. But there is a more fundamental issue. The value of democracy does not lie in fast and efficient big decisions. Compared to autocracy it is cumbersome and inefficient in decision making. That is why people often clamour for an authoritarian leader. 'Give us a Putin'. The value of democracy lies in correction of delusions of grandeur, wrong decisions, failed projects, and arrogance of power. Under an autocracy those are hidden and fester on. It must go very wrong before a correction comes, and then it is accompanied by much hardship and violence. All this was recognised already by Spinoza, and after him Montesquieu.

The point now is that capitalism began with the logic of democracy and has developed into the logic of autocracy. The irony is this. As mentioned earlier in this essay, Hayek justified the market as indispensable to cater to the diversity of wants, desires of people, and their knowledge, skills, and ideas. But now the market has led to concentration and loss of diversity, to autocracy of uncontrollable corporations. Democracy cannot stand up to that commercial autocracy.

Another economics

What now? We should return to a smaller scale, less concentrated and more diverse capitalism, with firms that can no longer withdraw from public interest. Not by a flood of regulations, but with barriers to a too large scale and concentration, with a break on mergers and acquisitions. That requires, among other things, a different composition of advisory boards. Those should no longer be dominated by shareholder interests. Under current capital markets, that would increase the cost of capital. Hence no country by itself could afford to do this, and it would require a concerted international action.

That is why I am in favour of further integration in the EU. On that scale it would also be better possible to bring corporations under control. However, a larger market also facilitates further increase of scale and concentration, and if that runs ahead of political integration we will not have made progress.

It runs deeper. A different economic science is also needed, with a more sober and realistic view of markets, and a more realistic view of the conduct of people and of social systems. Markets are needed but not in this way. It would go too far here to discuss how markets work and fail, when they go too far, and what, precisely, can be done about it. I did that in earlier work¹. Below, I will only summarize a few points.

With its assumptions of rational choice by autonomous economic agents, economics is a child of the Enlightenment. Philosophy and social sciences (sociology, law, political science, anthropology, cognitive science) have long since recognised that the human being is only limitedly rational, has limited free will, is largely driven by impulse and emotion, and is socially constituted. We need a new economics with such perspective.

Human conduct

As economics assumes, the human being is driven by self-interest. But there is more. It is also driven by an urge to survive and an urge to express itself in conduct, and this often does not yield the rational conduct that economics assumes. The philosopher Plato (in the *Phaedo*) compared the human spirit with a chariot with two horses. The charioteer is reason, trying to control a horse of desire and a horse of ‘thymos’, the will, the urge to manifest oneself. The philosopher Spinoza (and others) called it ‘conatus’, Nietzsche called it ‘will to power’. As Nietzsche claimed, it is often stronger than the will to survive. Among managers it yields spectacular mergers and acquisitions, exorbitant salaries, a craving for expensive cars, and megalomaniac office buildings. The urge also drives people to much good, in entrepreneurship, but it has to be kept within reason. Reason seems to have stepped down, and the horses of desire and will to manifestation have bolted.

Not recognised by economics, the human being also has an instinct for decent conduct, even a degree of altruism, though when pressures of survival mount, self-interest mostly prevails. Also, the instinct for altruism applies mostly within the group to which one feels to belong, at the price of mistrust and discrimination against outsiders. Hence it is called ‘parochial altruism’.

Market ideology has expanded to encroach upon public services, health, care, education, and culture. Citizens were to be seen as customers, and public services as products. As customers, citizens had been told that ‘the customer is king’ and is ‘always right’, and now they apply that to the provision of public services. If you are unhappy about the product you return it, reject it, and clamour for repair or replacement, while democracy entails that you do not always get what you want and have to yield to the interests of others.

Does it make sense to give a course on ethics to managers? To citizens? Perhaps it helps. Generations of managers and others have been mentally misformed by economics teaching that self-interest is all to the good of society. ‘Greed is good’, some say, with dry but glistening eyes. Perhaps that can be changed. But it will take a generation, with education in a different economics.

It is more likely, perhaps, that Western capitalism is pushed aside from outside. By China, most likely, with its different, more other-oriented, and society-oriented ethic, on its new-Confucian basis. I don’t want to romanticise this. As a Westerner, I would be apprehensive at its authoritarianism, elitism, and limited democratic freedoms.

It is more than individuals

The problem goes further. It is not only a matter of individuals, as economics suggests (with its ‘methodological individualism’). Trust in business concerns different layers. One needs to have trust in people working in a bank, say, trust in the bank as a firm, in the environment of financial markets, and in the wider institutional environment of laws, regulations, and habits. If individuals were to be trusted, that still requires that trustworthy conduct is facilitated and rewarded within the bank, that banks can afford to do so in their markets, and that governments intervene when they don’t. None of that is the case.

It is tempting to suspect a conspiracy of, say, bankers. If only it were that simple. Then we could replace the bad guys and give the weaker people a training in ethics. But it is much worse. Corporations might want to act more decently but cannot afford to do so in the market. If the top leaves opportunities for profit unused, they will be sanctioned by shareholders, or replaced, or the business bank will be taken over by a party with fewer scruples.

Investors should renounce investments in firms with such conduct, but even a pension fund, say, faces the choice of more ethical investment, e.g. not in weapons producers and not in hedge funds that prey on vulnerable ethical firms, but then the profit rate would be lower, and how ethical is that with regard to the pensioners?

Prisoners dilemmas

Many firms are in a so-called ‘prisoners dilemma’. Everyone may want to change, but only if all others do so as well, but they don’t, so no one does. The classic solution is for government to break through the stalemate with prohibitions or rules. A classic example is that of the tobacco industry. Firms spent large sums on advertising, even though that did not generate much more smoking, but every firm had to play along, not to lose market share. Government set restrictions, for health reasons, and that led, unintendedly, to a rise of profits in the industry.

The prisoners dilemma can also offer a convenient excuse: to claim that one would like to change, but, alas, cannot afford to.

In the case of banks government could take measures to keep banks from the game of investments whose risks are devolved on society when default occurs. For example, it has been proposed to split investment banking, the risky part, from savings and loans banking, and let the risky part default when needed.

However, governments themselves are also in a prisoners dilemma: one does not want to restrain banks as long as other countries do not join in. One is afraid to lose banking from, say, Amsterdam to London.

System tragedy

I call this *system tragedy*. Things go wrong, not in the first place from bad intentions, but from short-sightedness and an interlacing of conduct, positions, roles, and interests, on different levels, of people, firms, markets, and governments. Change would disrupt laboriously achieved truces between interests. Preserving that even has the name of ‘political rationality’, in contrast with substantive rationality. Participants get so entangled that they

look away or are even blinded to what is wrong and cannot conceive of any alternative. Any viable change does not go beyond tinkering on the details, preserving the system. God and devil are both lodged in the human being, but the devils resides especially in social systems.

The interlacing of interests is enhanced by ‘ revolving door’ careers, where politicians become defenders of business interests that they were previously assigned to control.

The central bank has conflicting tasks, of on the one hand the disciplining of banks in case of irresponsible conduct, and on the other hand maintaining the stability of the financial system, for which a large ‘ system bank’ cannot be allowed to default, and the banks know that. .

Scientists have a special duty towards independence and intellectual integrity. But I have also witnessed renowned scientists getting entangled in the institutional system. They were heading prestigious scientific institutions (Science Foundation, Academy of Sciences), and as administrators saw themselves obliged to support policies that they knew to be wrong. They had to do that from the perspective of the organisations they were responsible for. Not going along would mean remaining isolated outside.

Change from outside

History shows that such institutional systems can hardly change from within. To be effective, one needs to know the system intimately, and be part of requisite networks, to have even a small effect, and it hardly goes further than that. Precisely the position of insider blocks radical change. One is so much part of the system that one cannot conceive of alternatives. I call them ‘virtuosi of the status quo’.

History show that structural change mostly must come from outside. In revolution or ‘creative destruction’ by outside entrepreneurs. Revolution is not desirable. My hope lies with younger people with a fresh perspective, not compromised by the system. In finance we see that, in the Netherlands for example, in the so-called *fintech*: new firms that with the novel possibilities of the Internet come up with novel financial and related products, with which they are likely to bypass the banks.

I mentioned the scenario of change imposed from outside in Chinese expansion. Let me note that concerning system tragedy from interlaced interests, roles and positions of ruling elites, China would not seem to do better, to say the least.

A different ethics

The most fundamental change we need is a change of ethics. Economists claim to be ‘value free’, as proper scientists, but they are not. Even if they are not aware of it, the implicit choice is that of a utility ethics: only outcomes count, here in terms of prosperity, and underlying processes or intentions do not count. That is a choice of values.

A different ethic is the duty ethic of the philosopher Kant. That is the reverse: only intentions count, not outcomes. I do not plead for that. I do grant that utility should be part of any ethic, but not the whole of it.

I plead for a third option, of virtue ethics, going back to the philosopher Aristotle. That takes into account multiple dimensions of value, that include both outcomes and intentions. It also

includes things like truthfulness, courage, compassion, justice, among other things. Those multiple dimensions are not necessarily commensurable, cannot necessarily be added in a single utility function or a complete and consistent system of preferences.

An option from outside Western philosophy might be a Chinese new-Confucianist ethic. I already indicated my misgivings concerning its authoritarianism and elitism. I retain a preference for the disorder and turbulence of markets, but markets properly contained, and on a better ethical basis.

A fundamental problem of economics is that there is no complete or even adequate measure of value. Measures of national product include the production and removal of waste and pollution and do not include raising children. Labour is assessed in terms of remuneration, holidays, pension schemes etc., but not in terms of intrinsic quality of work. Education is assessed in terms of employment and remuneration, not in cultural terms. For an adequate capitalism one should take into account what is difficult to measure. Not everything is a matter of calculation, to be left to economists. It is a matter of deliberation and debate, to be claimed by politics. That is costly, I admit, but using artificial calculations to misguide policy is ultimately destructive of society.

An Aristotelian ethic of multiple, not necessarily commensurable values requires a practical wisdom of weighing such values more in dialogue, less calculatively, taking back political guidance from the economists and reattributing it to politics.

ⁱ Bart Nooteboom, ‘ How markets work and fail, and what to make of them’ , Edward Elgar, 2014 (paperback 2015).